

# **Emerging Markets and the International Business Environment (IBS9761) Spring 2011**

## ***Course Information***

Instructor: Professor Lilach Nachum  
Tel. 646 312 3303  
E-mail: Lilach\_Nachum@baruch.cuny.edu  
Office: VC 11 276

Office hours: according to previously agreed appointment. I encourage you to get in touch outside class, so that we can work together to ensure that you get the most out of this course and reach your highest possible potential. I will be happy to assist you with any course- and career-related issues.

## ***Course Description and Learning Objectives***

The rise of emerging markets is seen by many as the most important business development of our era. This development is changing the world of international business and raises distinctive challenges and opportunities for developed country firms competing internationally, as well as for domestic companies confronting new competitors at home. This course equips you with tools to better understand these challenges and opportunities. It will present you with the major issues that international managers are likely to face as a result of these developments, and will consider strategic solutions to these specific challenges. These issues will be addressed in light of ethical concerns. Our goal is not to become experts about any particular country or region; rather, we seek broad principles that can be applied across emerging markets and firms.

The course consists of two sections, which correspond to the ways by which the rise of emerging markets affects the international business landscape that firms operating internationally confront:

1. *Investment in emerging markets.* Emerging markets represent a paradox for developed country firms. On the one hand, many of the most attractive business opportunities internationally reside in these markets, making them of special importance and interest for developed country firms. These firms are well-aware of these opportunities and many (most) of them believe that their major future growth will originate in these markets. About 30% of 351 MNEs surveyed by the *World Bank* reported an intention to shift their foreign investment from developed to emerging markets in 2010, and about 45% of them indicated an intention to do so in the next three years. At the same time, many developed country firms fail in emerging markets, among them some of the world most successful companies, which hold dominant competitive positions elsewhere. Only handsome make money in these markets. For many others, the emerging market operations subtract, rather than add, economic value. There seems to be something distinctive about emerging markets that curtails the ability of developed country firms to compete there successfully.

In this part of the course we seek to develop an understanding of these distinctive aspects of emerging markets. This part of the course is structured around two themes:

- a. The three major attractions of emerging markets as investment locations:
  - i. Production (export platform)
  - ii. Markets
  - iii. Resource reservoirs

We will examine specific challenges and means of extracting value in relation to each of these investment attractions in emerging markets.

- b. Different categories of emerging markets – distinguished by the type of business opportunities they present, as it hinges on their political systems, size, location, and resources. The ‘emerging markets’ category comprises a diverse group of countries that differ in their histories, political systems and culture of consumption and doing business. We will seek to gain some sense of these differences as they affect the challenges and opportunities confronted by developed country firms in groups of emerging countries.
2. *Emerging market companies.* Developed country firms know to compete with their counterparts in other developed countries – they have done that for centuries. But the challenges that emerging market firms represent are new. Developed country firms that are typically larger, have more advanced technologies and managerial and organizational skills than their emerging market counterparts often derail in competition with them. Just as investment in emerging markets appears different in some important ways than investment in the developed world, so is the competition with emerging market firms. In this part of the course we seek to deepen the understanding of the distinctive attributes of emerging market firms, and the changes that they bring to the global competitive environment. We will pay particular attention to the internationalization of these firms, as it affects developed-country companies and the dynamics of international business.

By the end of the course, you can expect to:

- Have a better understanding of a range of opportunities available for companies to create value in emerging markets, as well as the complexities associated with managing operations in these markets
- Understand the different nature of emerging market companies and the distinctive challenges of competing with them.

### **Learning goals:**

This course will address the graduate core learning goals in the following ways:

- a. Teamwork and Leadership – group projects
- b. Ethical Awareness – class discussions; reading material; group projects
- c. Communication – class discussions; group presentation
- d. Quantitative Analysis – group projects
- e. Knowledge Integration – class discussions; group projects
- f. Global awareness – class discussions; reading material; group projects

## ***Course Organization***

The learning process in this course takes place through discussions, debates and exchange of views. For such learning to be effective, you need to take active part in the discussions. I would like you to see this as a commitment, not an option, and be active during our discussions. Do not hesitate to ask questions and raise issues for debate. All constructive efforts to contribute to our discussions are welcome and will be viewed favorably. These discussions also assist you to familiarize yourself with technical terms and jargon of our field. The business world has its own 'language'. Familiarity with this language is important for your credibility.

In these class discussions, I seek to rely on your professional and personal background to the extent possible. I encourage you to share any such information that you deem relevant for our discussion with the rest of the class, to enrich our discussions.

## ***Prerequisites***

There are no formal prerequisites for this course.

## ***Course Materials***

There is no textbook for this course.

The reading material will be posted on Blackboard before the classes in which they are due (under 'assignments').

You have to purchase several cases (details below). **All cases can be purchased on-line from <http://hbsp.harvard.edu/product/cases>.** Discussion questions for the cases appear on the last pages of the syllabus. Please use them to direct your reading. We will use these same questions to guide our class discussions.

Class overheads are posted on Blackboard prior to each class (under 'course documents').

A copy of this syllabus is also available on Blackboard (under 'course information').

## ***Course blog***

I set up a blog to our course on the blog@baruch system. As the course progresses I will regularly post material of relevance for our course on the blog, including newspaper stories and articles related to our topic. I encourage you to do the same, so we can collectively contribute to the learning process. Our blog will be as good as we will collectively make it!

## ***Course Expectations and Performance Evaluation***

- Class participation: 35%. This part of the grade will reflect your contributions to our class discussions. It will largely be based on the knowledge and understanding of the course material that you will display during these discussions and your ability to apply them meaningfully to contribute to our class discussions. The large share assigned to class participation reflects my belief in the value of this activity. The learning process is

maximized when you are actively engaged in class discussions. *I encourage you to share your personal and professional experience, when they are relevant to our discussions.*  
**Class attendance is a necessary, although not a sufficient, condition for class participation!**

- 2 group assignments: corresponding to the two parts of the course, based on the frameworks introduced in class (detailed instructions will be distributed):
  - Developed country MNEs in emerging markets: 20%. Analysis of investment opportunities in different emerging markets regions with reference to a developed country company of your choice
  - Emerging market firms investing overseas: 20%. Analysis of the competitive situation between emerging and developed country firms in different markets in an industry of your choice
  - 15% of the grade of these assignments – average peer evaluation. However, if all your group members evaluate your contribution as nil, you will not receive any grade for the assignment.
- Final exam: 25%

### ***Academic Integrity***

**Remember! Plagiarism is not tolerated and our school has a very strict policy for such behavior**, which I fully endorse (Baruch College's policy on Academic Honesty and the punishment of such behavior is outlined in

[http://www.baruch.cuny.edu/academic/academic\\_honesty.html](http://www.baruch.cuny.edu/academic/academic_honesty.html)).

**I trust there will be no need for such actions in our class.**

### ***Course Schedule***

Class/Date	Class contents	Required readings (extracts)	Cases <sup>1</sup> and assignments
1 January 29	<i>Emerging Markets: Definitions and General Overview.</i> <i>Overview of the course.</i> <i>The Institutional Environment in Emerging Markets.</i> - Market failures and its strategic consequences - Business relationships	Khanna, T., K. G. Palepu, and J. Sinha. Strategies that fit emerging markets. <i>Harvard Business Review</i> June 2005; I. Yeung, and R.L. Tung, Achieving Business Success in Confucian Societies: The Importance of Guanxi (Connections). <i>Organizational Dynamics</i> 1996 25(2)	
<b><i>Part I: Investing in Emerging Markets</i></b>			
2 Feb 5	<i>Emerging markets as Production Locations:</i> - Local factors of production - Emerging markets as part of an internationally-integrated production chain	G. Jones, Multinational strategies and developing countries in historical perspective. Harvard Business School working paper 10-076, 2010	Case: SAP: Establishing a Research Centre in China. University of Hong Kong case #HKU817-PDF-ENG, 2009
Feb 12, Lincoln's birthday, no class			
3 Feb 19	<i>Emerging Markets as Markets:</i> - Distinctive characteristics of emerging market consumers - Where are emerging	Vijay Mahajan, <i>The 86% Solution: How to Succeed in the Biggest Marketing Opportunity of the 21<sup>st</sup> Century</i> Wharton School Publishing 2006 (chapter 1); Immelt J., Govindarajan V. and Trimble C. 2009. How GE is disrupting itself? <i>Harvard Business Review</i> October 2009	Case: Orange Cameroon, A Global Telecommunications Company in Africa. Babson College case # BAB136-PDF-ENG, 2009

<sup>1</sup> Discussion-questions for the cases covered in the course are given in the following pages. Use them to guide your thinking on the cases. We will use these same questions as a guide for our class discussions.

	market consumers? Serving the Diasporas		
4 Feb 26	<i>Emerging Markets as Reservoirs of Natural Resources:</i> - World's natural resources and emerging markets. - Dealing with national governments	United Nations, <i>World Investment Report 2007: Transnational Corporations, Extractive Industries and Development</i> , Geneva; Abdelal R. 2010. The promise and peril of Russia's resurgent state. <i>Harvard Business Review</i> 88(1): 125-129.	Case: BP in Russia: Settling the Joint Venture Dispute. Harvard Business School case # 9-908-M99, 2008
5 March 5	<i>Strategies for Emerging Markets</i> – First mover advantage? - Strategies for hyper-growth markets. - Performance indicators for emerging markets. - Impact of colonial ties.		Case: Eli Lilly in India. Ivey School of Business case # 9-904M16, 2008 <b>1<sup>st</sup> group project assigned</b>
	<i>Classifying Emerging Markets</i> - Video: Emerging markets are not alike - Bases for classification: advantages and disadvantages		
6 March 12	<b>No class</b>		
7 March 19	<b>No class</b>		
8 March 26	Emerging regions and their distinctive challenges and opportunities:		<b>1<sup>st</sup> group project due</b>

	<p>Presentation of group projects. Comparative discussion. Class exercise: region-specific challenges and opportunities</p>		
<b>Part II: Emerging Markets Multinationals</b>			
9 April 2	<p><i>What is different about Emerging Market Firms?</i></p> <ul style="list-style-type: none"> <li>- Distinctive strength and weaknesses</li> <li>- Organizational structure - Business groups</li> <li>- Ownership and governance: Family, State, and private ownership</li> </ul>	<p>R. Ramamurti and H. Singh (eds.) <i>Emerging Multinationals from Emerging Markets</i>. Cambridge University Press, 2009 (chapter 1); A. Amsden and T. Hikino, Project execution capabilities organization know-how and conglomerate corporate growth in late industrialization. <i>Industrial and Corporate Change</i> 1994, 3(1); D. Miller and I. Breton-Miller. <i>Managing for the Long Run: Lessons in Competitive Advantage from Great Family Businesses</i>. Harvard Business School Press 2005 (chapter 1); P.Z. Poutziouris, K.X. Smyrnios, S.B. Klein (eds.), <i>Handbook on Family Ownership</i>, Edward Elgar 2006; FDI by Sovereign Wealth Funds, UNCTAD <i>World Investment Report 2008</i>, United Nations, Geneva.</p>	<p>Case: Arcor Argentina: The Challenge of Becoming a Global Competitor. Stanford Graduate School of Business IB66-PDF-ENG, 2006</p>
10 April 9	<p><i>Emerging Market Firms go International</i></p> <ul style="list-style-type: none"> <li>- Challenges of global expansion:</li> <li>- Late internationalization</li> <li>- Ownership</li> <li>- Home-country image</li> </ul>	<p>R. Ramamurti and H. Singh (eds.) <i>Emerging Multinationals from Emerging Markets</i>. Cambridge University Press, 2009 (chapter 13); M. F. Guillen and E. Garcia-Canal, The American model of the multinational firms and the ‘new’ multinationals from emerging economies. <i>Academy of Management Perspectives</i>, 2009, 23(2); R. Deshpandé, Why You Aren't Buying Venezuelan Chocolate. <i>Harvard Business Review</i>, 2010, 88(12)</p>	
11 April 16	<p><i>Competing with Emerging Market MNEs</i></p>	<p>N. Kumar, How emerging giants are rewriting the rules of M&amp;A. <i>Harvard Business Review</i> May 2009, 115-121;</p>	<p>Case: House of Tata: Acquiring a global footprint, Harvard</p>

		P. Kale, H. Singh and A.P. Raman. 2009. Don't integrate your acquisitions, partner with them. <i>Harvard Business Review</i> December, 109-115. <i>The Economist</i> , Chinese takeovers: Being eaten by the dragon. November 13, 2010	Business School case #9-708-446, 2008. <b>2<sup>nd</sup> group project assigned</b>
April 23, Spring break, no class			
12 April 30	<i>Competing with Emerging Market MNEs</i> – in emerging markets	A. Bhattacharya and D. Michael, How local companies keep multinationals at bay. <i>Harvard Business Review</i> , March 2008 Let the Race Begin: Local Sportswear Rivals Take On Foreign Favorites in China. Knoweldge@Wharton, 3/30/2011	Huawei: Cisco's Chinese challenge. University of Hong Kong case # HKU 599
13 May 7	<i>Competing with Emerging Market MNEs</i> – in emerging markets – in the global market		Case: Haier: Taking a Chinese company global. Harvard Business School case #9-706-401, 2007
	Guest speaker: Doing business in Asia	Ken Davies Senior Staff Associate, Vale Columbia Center; Former Chief Economist for Asia at the Economist Intelligence Unit (EIU) in Hong Kong <a href="http://www.vcc.columbia.edu/content/staff">http://www.vcc.columbia.edu/content/staff</a>	
14 May 14	<i>Discussion of Group Work:</i> The competitive arena between emerging market and developed market MNEs		<b>2<sup>nd</sup> group project due</b>
	<i>Closure and Take Away</i> What's ahead for emerging markets? Some tentative		Take away exercise due

	suggestions		
May 21 10.30am- 12.30pm	Final exam		

## Discussion Questions for the Cases

When you think of the case questions, use the reading material that accompany the respective cases. I expect your contributions to class discussions to reflect familiarity with this material and be grounded in the concepts and paradigms introduced in the respective reading material.

### Part I:

#### SAP

- Which aspects of the business environment should affect SAP's decision to establish an R&D center in an emerging market? Refer to the variety of local stakeholders that might influence SAP's operations.
- What are the advantages and limitations of emerging markets as locations for the generation of new knowledge and creation of innovation compared to developed countries?
- In light of this comparison, does SAP's decision to open up an R&D center in China make sense? Explain.
- How do your answers to the questions above differ in relation to the establishment of manufacturing facilities in China?
- Would you approve SAP decision to locate itself in the Science Park? Should it rather be in Beijing, like many of its competitors? What are the advantages and disadvantages of each of these locations? What do they tell about the nature of activity in China?

#### Orange

- What are the major challenges and opportunities that Orange faces when trying to sell in Africa? In light of this evaluation, does this operation make sense?
- With the affluent segments of the population already served and with almost 44% of the population under the lower poverty line, what were Orange's avenues for growth in Cameroon?
- What competitive advantage could Orange rely upon if it decides to serve the poor in Cameroon? What, if any, new capabilities would it need to develop or acquire in order to do so successfully? Refer to its firm-specific capabilities and those it can gain via its parent France Telecom.
- What would be the likely impact of introducing cell phones to poor customers in urban and rural areas on the competitive position of Orange outside Cameroon? Distinguish between other emerging markets and developed markets.
- In its competition with MTN in Cameroon why was Orange, one of the world's largest mobile phone operators, out-competed by MTN?

#### BP

- Why did BP invest in Russia? Refer to the four investment motivations described in the reading, and to the vertically integrated nature of oil companies, described in the case. With hindsight, was the entry to Russia the right strategy for BP?
- Describe the balance of power between BP and the Russian government. What are the sources of strength and weaknesses of each?
- What are BP sources of competitive advantage? How does it exploit them in Russia?
- How does government ownership of natural resources affect BP's international expansion options? and its competitive position relative to its major competitors? Distinguish between privately- and state-owned competitors.
- Should BP terminate the joint venture TNK-BP? Outline the reasons for and against such a move. Based your recommendation on the balance between them.

### **Eli Lilly**

- Has the entry to India via J.V. with Ranbaxy fostered or hindered the achievement of Eli Lilly's investment objectives in India? Think about this question in light of the characteristics of emerging markets described by Khanna, Palepu and Sinha (reading package for class 1).
- IPR protection is a major issue for a pharmaceutical company in India. What did Eli Lilly do right and wrong to protect its IP?
- In light of the changes taking place in the Indian business environment since Eli Lilly's entry, should Eli Lilly maintain the J.V. with Ranbaxy? Why? Why not?
- If it is to terminate the J.V., should it go on its own or form a new one? What are the trade-offs involved?
- Do you believe that Eli Lilly's operations in India have been successful? Refer to Exhibits 5 and 6 in the case, which describe the financial performance of Eli Lilly in India and globally respectively. What is an appropriate measure of 'success' in the context of India? Do emerging markets require different performance criteria to those used in developed markets?

### **Part II:**

#### **Arcor**

- Contrast and compare Arcor with Danone. What are the major differences between these firms in terms of their strengths and weaknesses, including their ownership and governance?
- Which specific conditions in Argentina explain those differences?
- Family-owned companies, like Argentina candy producer Arcor, are very common in emerging markets. How does family ownership affect the way Arcor operates – in Argentina and when it expands internationally?
- Is Arcor's family-ownership an asset or a liability for its international expansion? Refer to its moderate rate of international expansion, country selection and mode of operation outside Argentina.

## **Tata**

- Given the distinctive characteristics of emerging market MNEs discussed in class, which specific strategies are appropriate for Tata in its international expansion? Refer to the motivation for investing overseas, the appropriate countries for expansion, and entry modes.
- Tata companies enjoy very strong position in India, and yet their performance in the international market varies substantially? What explains this variation?
- Given the difficulties that some of the groups experience in the international market, is international growth appropriate for all of them? Which criteria should guide Tata when selecting the appropriate industrial segments for global expansion?
- Do you justify Tata's preference for expansion via acquisition? What are the advantages and disadvantages of this strategy for Tata relative to the alternatives (e.g., greenfield expansion, equity and non-equity collaborations)?

## **Huawei**

- What are the main competitive advantages of Huawei? How do these play out in competition with Cisco – in China and in the global market?
- How has Huawei's national origin affected its international expansion and its global position in relation to Cisco? What strategic options are available for Huawei to deal with this situation? Which of these would you advise them to select?
- What strategic challenges these moves by Huawei pose for Cisco? In which ways do they modify the 'rules of the game' of the competition in the industry? How should Cisco respond?
- What could explain the differential performance of Huawei in developing countries and in developed countries (particularly its difficulties in the US)?
- Given the enormous potential in China, should Huawei go international at all? Or should it rather focus on establishing its position at home? If you favor international expansion, should it focus on developing countries only rather than trying to compete with Cisco on its home turf? Explain.

## **Haier**

- Contrast and compare Haier and Huawei's international activities. What explain the different in their international performance?
- What are the sources of Haier's competitive advantage? How are they being utilized to enhance its international activities?
- Can Haier become a major player overseas? In the US? In emerging markets? Explain.

### ***About the Instructor***

I hold a BA and an MBA from Tel-Aviv University, Israel (both completed with distinction), and a PhD from Copenhagen Business School, Denmark. My professional interests and expertise are in issues related to international business and Multinational Corporations, topics I have been teaching, consulting and publishing on intensively.

Prior to joining Baruch College in 2002, I was a Senior Research Fellow at Cambridge University, UK, where I was involved in a number of research projects on the activities of foreign firms in London. Earlier, I held a Senior Member position in the Research Division on Foreign Investment and Transnational Corporations at the United Nations in Geneva, Switzerland.

In conjunction with these positions, I have been acting as consultant to a number of national and international organizations - including the United Nations, the World Bank, the European Union, London's Westminster City Council - on issues related to Multinational Corporations and international competitiveness. I have been holding visiting research and teaching positions at universities in Austria, China, India, Israel, Italy, Poland, Sweden, Switzerland, and the UK, and have been teaching on Baruch College's Executive Education programs in New-York, Taiwan, Singapore and Hong-Kong. I am listed in the *Marquis Who's Who in the World* and the *Marquis Who's Who in America*.

Prior to joining academia, I held managerial positions in a number of companies in Israel.